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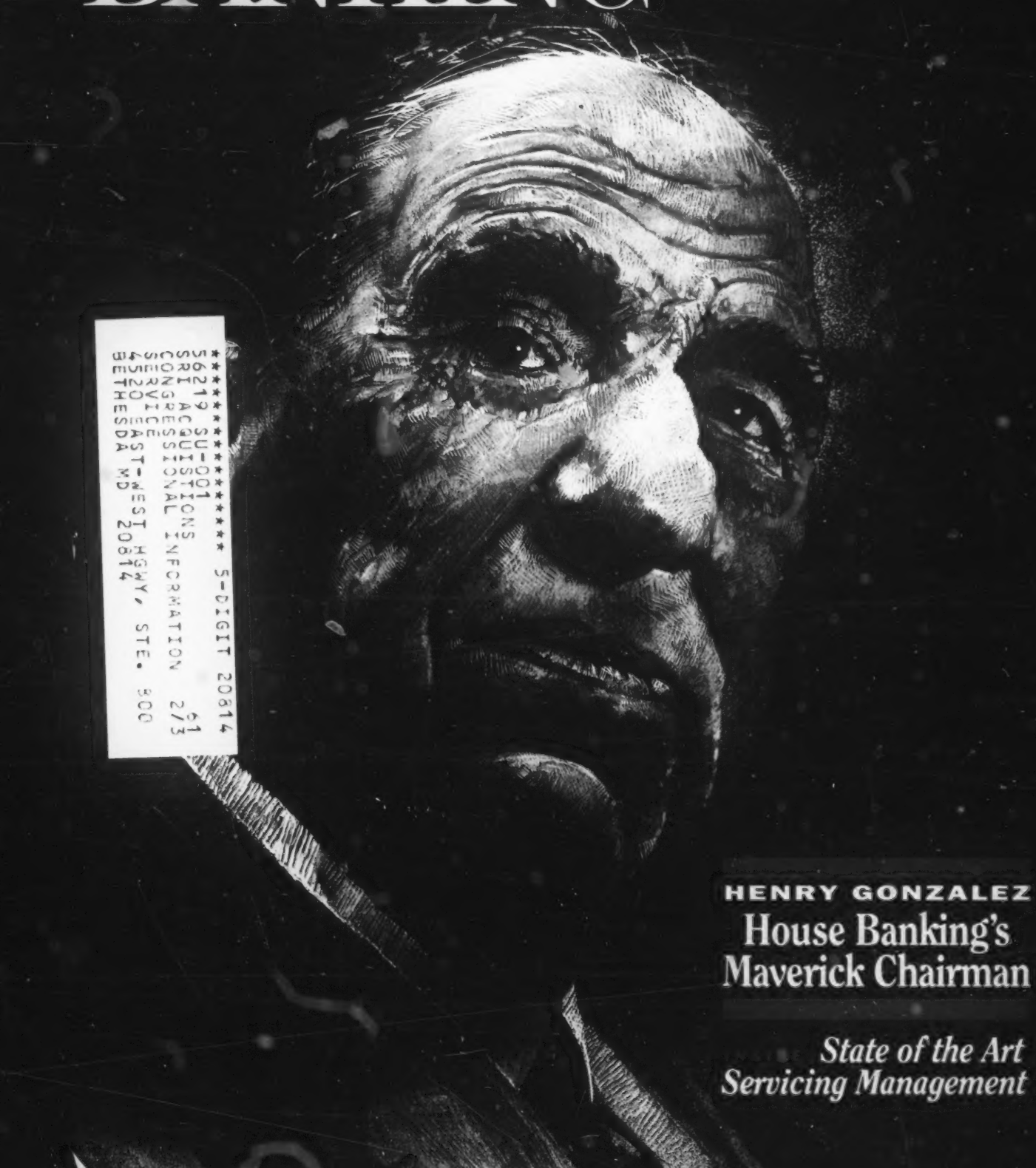
FEBRUARY 1991

MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE



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HENRY GONZALEZ

House Banking's Maverick Chairman

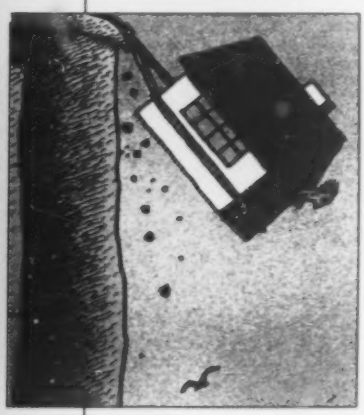
State of the Art Servicing Management

CONTENTS

FEBRUARY 1991 VOLUME 51 NUMBER 5

COVER: The nation's banking laws are on the brink of dramatic change. The Depression era laws have been out-of-step with financial services reality for quite some time. With the banks' deposit insurance fund now wobbly in the face of recession, the time has come for Washington to address the issue. The man of the hour is a one-of-a-kind Democrat from Texas who heads the House Banking Committee. Henry Gonzalez will play a unique role, along with his Senate counterpart, in shaping the new rules of the game.

Servicing Management



11 Foreclosure Combat *Pulling savable loans from the brink of foreclosure is good business. With delinquencies rising, here are some tips on how to make this strategy work.* By CAM MELCHIORRE

21 Servicing in a Slump *In 1985, there were few, if any, adverse consequences for defaulting borrowers. But servicers have learned a lot since the oil patch housing recession.* By GENE CAMPION

27 Maximizing Manpower *Highly trained personnel, supplied with the best technology, are the keys to better productivity in servicing.* By TIMOTHY L. RECTOR

33 Match Game *It takes a matchup of buyers and sellers to keep servicing prices from plummeting. With the RTC weighing down the market on the sell side, it looks like a buyer's market. But, many traditional buyers of servicing are looking for quality, regionally specific portfolios that RTC simply doesn't have to sell.* By HOWARD SCHNEIDER

Profile

38 The Spicy Politics of Henry Gonzalez *The Texas maverick who heads the House Banking Committee defies political labels. This first part of a two-part series profiles Chairman Gonzalez—a man in the uniquely powerful position to rewrite the nation's banking laws.* By ROBERT STOWE ENGLAND

Mortgage Products

49 The Steady Arm *The list of new mortgage products continues to grow as mortgage designers get increasingly creative. Cross-fertilizing fixed-rate and adjustable rate mortgage features produced this new idea for a hybrid ARM.* By STEPHEN F. THODE

Technology

57 Servicing Smarter *Innovations in computer systems boast many applications in loan administration. Here are the newest high-tech tools that are changing servicing's workflow.* By BRIAN HERSHKOWITZ

Secondary Market

63 Jonathan's Dilemma *A strategy for secondary marketing managers seeking to make money and stay covered in a bull market.* By GREG CROSBY AND LES PARKER

DEPARTMENTS

7 Business Alert
66 MarketPlace
68 People
69 The Secondary Market
71 Economic Trends
76 Index to Advertisers

COVER ILLUSTRATION BY WEB BRYANT

PORTFOLIO

Servicing's Nemesis

Housing depreciation and economic downturns are things that servicers have learned to dread. But they are also facts of life in the housing business. Smart servicers have learned that it is no longer permissable to be without an aggressive plan and effective tools for surviving these inevitable downturns. The costs are simply too great.

So, not surprisingly, in 1991, the industry is turning back to the chapter written about the last deep regional housing crisis in the oil patch, and pulling pages out of the book to help manage the way through the current downturn. The goal is to leave as few casualties as possible—and that means keeping REO and foreclosures to the absolute minimum.

The oil patch recession left a legacy of familiar stories about borrowers simply mailing in their keys. The REO losses produced by that severe downturn are still vivid memories for many in the business—and for some now out of the business. Those caught in the spiral of the oil industry's decline saw borrowers—with little to lose—casting aside legal obligations to pay back loans and simply defaulting with the intent to buy new homes, often in the same neighborhood, at the much-improved going rate.

But our authors describe how at least some of the rules of that game have changed. The stakes have been raised for the te[illegible] borrower—with defaults now almost a sure bet to end up on a credit re[illegible].

New England is the spot now on the industry's m[illegible] for a replay of these unpleasant circumstances. This month in our cover report we have packaged some expert advice on how to avoid foreclosures and work with borrowers to mitigate losses in stalled housing markets. The issue also covers how computer systems and other advanced technology are transforming the servicing workplace for the better. Servicing productivity and performance stand to benefit from the widespread adaptation of technology in the business. Last but not least, this month's issue carries the first of a two-part profile of a lawmaker with the fervor of a political missionary. Meet House Banking Committee Chairman Henry Gonzalez and get an inkling of what might happen when the nation's banking laws are revisited.

Janet Reilley Hewitt
Editor in Chief

EDITOR'S NOTE: In an article in the December issue titled "A Slow Start for Reverse Mortgages," on page 39, Donald Redfoot was misidentified as a HUD lobbyist. Mr. Redfoot is a legislative representative for the American Association of Retired Persons.

COMING IN MARCH

Exploring automation in all aspects of the business is the assignment for next mo[illegible]h. We will explore the systems that mortgage insurers, Fannie Mae, Freddie Mac, HUD and lenders are using to keep a watchful eye on how loans are performing, how originators are underwriting and how seller/servicers are doing.

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VITAL STATISTICS

INTEREST RATES & YIELDS
1- TO 4-FAMILY MORTGAGES

	FHA OPINION SURVEY	FHFB			FNMA		FHLMC	
1990	FHA New Homes[1]	CONVENTIONAL[2] FRM	ARM	Median Cost of Funds SAIF Institutions	1-Yr. ARM	FRM Conv.	ARMs	FRMs
SEP	10.26%	10.33%	9.06%	NA	7.96%	10.07%	8.28%	10.18%
OCT	10.24	10.37	9.03	NA	7.84	10.08	8.20	10.17
NOV	10.02	10.39	9.07	NA	7.60	9.87	8.08	9.90
DEC	**NA**	**NA**	**NA**	**NA**	**7.34**	**9.56**	**7.93**	**9.67**

SELECTED SECURITIES

			U.S. GOVERNMENT				
1990	FEDERAL FUNDS RATE	PRIME COMMERCIAL PAPER (3-Month)	6-Month	1-Year	3-Year	10-Year	A-Rated Utility
SEP	8.20%	7.96%	7.32%	7.76%	8.27%	8.89%	10.28%
OCT	8.11	7.98	7.16	7.55	8.07	8.72	10.23
NOV	7.81	7.91	7.03	7.31	7.74	8.39	10.07
DEC	**7.31**	**7.80**	**6.70**	**7.05**	**7.47**	**8.08**	**9.95**

CURRENT SECONDARY MARKET YIELDS

1990	GNMA[3]	FNMA[3]	FHLMC[3]
SEP	9.86%	9.79%	9.73%
OCT	9.84	9.80	9.69
NOV	9.63	9.66	9.54
DEC	**9.22**	**9.27**	**9.16**

SPREADS
(Basis Points)

	GNMA	FNMA	FHLMC
	Minus 10-Yr. Govt.	Minus 10-Yr. Govt.	Minus 10-Yr. Govt.
SEP	97	90	84
OCT	112	108	97
NOV	124	127	115
DEC	**114**	**119**	**108**

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

	FNMA				FHLMC*				GNMA	
	Portfolio		Mortgage-Backed Securities						Pass-Through Securities	
1990	Commitments**	Purchases	Out-Standing	Issued	Commitments To Sell	Commitments To Buy	Mortgages Purchased	PCs Issued	Applications	Issued
AUG	$2,302	$2,134	$275,227	$9,378	$6,279	$5,645	$5,417	$4,808	$4,492	$6,557
SEP	2,073	2,123	281,806	8,953	4,749	6,643	5,798	5,707	7,094	5,421
OCT	1,849	2,077	287,674	8,078	7,280	10,972	6,118	5,734	5,748	5,346
NOV	**2,426**	**2,078**	**293,710**	**8,199**	**NA**	**NA**	**NA**	**NA**	**5,008**	**5,889**
1989 TOTAL	27,409	22,518	—	69,764	85,408	86,263	78,589	73,518	62,000	57,323
1988 TOTAL	23,435	23,110	—	54,878	41,271	70,669	44,075	39,777	60,009	55,285
11 MONTH AVG. 1990	1,962	1,959	—	8,062	6,025	7,930	5,790	5,758	5,504	5,432
1989	2,265	1,776	—	5,421	6,721	6,750	6,222	5,786	4,680	4,723
1988	2,008	1,944	—	4,495	3,350	5,051	3,412	3,003	5,099	4,634

*FHLMC year to date averages are for ten months.
**Does not include standby commitments issued, but includes standby commitments converted.

Housing Activity

Residential Structures

(Units in Thousands, Seasonally Adjusted Annual Rates)

	BY TYPE OF UNIT						BY REGION							
	HOUSING STARTS			BUILDING PERMITS			HOUSING STARTS				BUILDING PERMITS			
1990	Total[5]	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Northeast	Midwest	South	West	Northeast	Midwest	South	West
AUG	1,131	866	265	1,050	818	232	120	241	434	336	112	225	402	311
SEP	1,106	893	213	992	786	206	104	239	445	318	104	221	386	281
OCT	1,033	877	156	920	751	169	142	237	394	260	113	200	354	253
NOV	**1,129**	**815**	**314**	**907**	**713**	**194**	**140**	**237**	**478**	**274**	**103**	**200**	**365**	**239**
1989 TOTAL	1,376	1,059	318	1,338	999	340	179	266	536	396	179	252	505	402
1988 TOTAL	1,488	1,140	348	1,456	1,070	386	235	274	575	404	230	266	544	416
11 MONTH AVG. (SAAR)														
1990	1,230	959	271	1,136	869	267	138	264	487	340	129	253	430	325
1989	1,397	1,073	324	1,344	1,006	338	187	270	545	394	183	258	506	397
1988	1,484	1,140	344	1,448	1,064	384	243	266	571	404	234	258	541	415

Home Sales

(Units in Thousands)

	EXISTING HOMES			NEW HOMES		
1990	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate
AUG	3,500	2,720	9.3	527	345	8.1
SEP	3,170	2,590	9.8	507	339	8.3
OCT	3,050	2,640	10.4	492	334	8.3
NOV	**3,140**	**2,590**	**9.9**	**506**	**327**	**7.8**
1989 TOTAL	3,440	—	—	650	—	—
1988 TOTAL	3,594	—	—	673	—	—
11 MONTH AVG. (SAAR)						
1990	3,315	—	—	543	—	—
1989	3,458	—	—	656	—	—
1988	3,527	—	—	675	—	—

Value of New Private Construction Put in Place

(Units in Billions of 1987 Dollars, Seasonally Adjusted Annual Rates)

1990	Total[5]	1–Unit	2+ Units	Nonresidential
AUG	$286.1	$97.6	$16.9	$93.2
SEP	290.5	95.1	16.7	91.9
OCT	282.7	93.7	17.0	89.1
NOV	**277.0**	**91.6**	**16.3**	**87.3**
1989 TOTAL	308.5	106.3	20.7	96.0
1988 TOTAL	314.4	112.0	21.4	93.5
11 MONTH AVG. (SAAR)				
1990	298.6	103.0	17.6	93.4
1989	310.1	109.0	20.9	96.4
1988	314.0	111.9	21.5	93.3

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Type of Unit
(Dollars in Millions)

	1-4 UNITS					5+ UNITS					NONRESIDENTIAL				
	Total[5]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[5]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[5]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies
1990															
APR	$35,407	$7,543	$12,400	$15,122	$28	$1,973	$145	$935	$698	$50	$18,984	$100	$621	$14,796	$3,048
MAY	37,255	9,420	13,183	14,231	27	2,453	297	1,061	874	39	15,412	110	640	10,905	2,657
JUN	38,428	9,714	13,209	15,063	29	2,778	209	989	682	182	16,411	105	666	12,303	3,097
JUL	**35,519**	**9,627**	**12,015**	**13,461**	**30**	**2,082**	**165**	**871**	**696**	**209**	**16,221**	**98**	**475**	**12,525**	**2,984**
1989															
TOTAL	352,026	65,606	157,676	123,193	1,443	31,145	4,443	13,469	7,669	2,786	149,950	1,688	14,476	106,424	25,675
1988															
TOTAL	383,566	85,307	188,871	101,863	3,331	38,158	4,526	20,551	6,920	3,732	181,604	1,032	24,368	124,106	29,986
7 MONTH AVG.															
1990	35,572	9,239	12,095	13,811	60	2,697	417	948	841	210	16,840	124	669	12,670	3,032
1989	27,706	5,372	12,619	9,315	78	2,388	274	1,170	536	174	11,520	109	1,374	8,160	1,745
1988	30,932	7,057	14,754	8,564	216	2,925	380	1,582	543	263	15,105	61	2,034	10,835	1,958

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	TOTAL	FHA[8]	VA	PRIVATE[9]	TOTAL		FHA		VA		PRIVATE[9]	
					Units	Amount	Units	Amount	Units	Amount	Units	Amount
JUL	144	84	15	45	118	$9,651	67	$4,509	15	$1,253	36	$3,889
AUG	154	89	18	47	126	10,273	70	4,764	19	1,572	37	3,937
SEP	119	68	14	37	109	8,827	64	4,319	14	1,180	31	3,328
OCT	**NA**	**74**	**20**	**NA**	**NA**	**NA**	**66**	**4,476**	**19**	**1,612**	**NA**	**NA**
1989 TOTAL	1,687	990	194	503	1,274	95,956	726	45,893	183	12,946	365	37,117
1988 TOTAL	1,755	949	211	595	1,394	98,012	699	42,577	211	15,771	424	39,664
10 MONTH AVG.												
1990	NA	85	17	41	NA	NA	66	4,395	17	1,365	31	3,270
1989	NA	85	16	42	NA	NA	59	3,702	15	1,153	30	2,989
1988	NA	83	18	52	NA	NA	60	3,654	18	1,307	36	3,345

[9] Private insurance year-to-date averages are for nine months.
NA—Not Available; SAAR—Seasonally Adjusted Annual Rate
[1] Secondary market gross yields. Numbers shown for each month are the average of yields from the first day of the month shown and the first day of the subsequent month.
[2] Effective rate on loans closed.
[3] Securities for 0- to 30-day delivery.
[5] In addition to the categories of private construction shown, the total also includes these categories: residential improvements, railroads, electric light and power, gas, telephone and telegraph, petroleum pipelines, and farm nonresidential.
[6] In addition to the categories shown, the total also includes private pension funds, private MBS conduits, state and local retirement funds, federal credit agencies, mortgage pools, and state and local investment agencies.
[7] Savings & Loans and Mutual Savings Banks.
[8] FHA applications received includes the Direct Endorsement Program.